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Strong dollar still causing adjustment

The Australian dollar hit parity with the USD around two and a half years ago, but Australian businesses are still re-adjusting to the high AUD environment despite it becoming the "new normal."

In that time the AUD has traded in a relatively stable range against the USD, fluctuating between parity – or thereabouts - and the July 2011 record high of US$1.08.

Despite this stability, the Aussie currency's strength is having an ongoing influence on Australian businesses, many of which are in an ongoing process of adjustment.

The AUD environment is also driving a much stronger engagement with FX products across the board, and a greater emphasis on risk management strategies.

East & Partners Trade Finance report also shows the extent to which importers are continuing to gain the ascendancy.

The number of institutional businesses – or those with A$530 million or more in annual turnover - engaging exclusively in importing has risen almost ten percent over three years, from 22.4 percent in February 2010 to 32.1 percent in February 2013.

Among smaller enterprises the percentage is even higher. Among corporates – those enterprises turning over between A$20-530 million – those with an importer only profile has risen from 64.4 percent to 74.6 percent over the same time period.

It has been a gradual shift, but one which still has momentum and reached a tipping point in February when, for the first time in the Trade Finance series, the number of enterprises across all segments both importing and exporting fell below 50 percent, to 49.9 percent.

Other research by East underlines the reasons why enterprises would abandon exporting.

Among larger institutional businesses, 20 percent of those which are expecting higher levels of business stress in the next six months blame exchange rate volatility, the second highest result after a lack of demand and confidence.

While importers are continuing to report higher volumes, export volumes are contracting even faster.

In a mirror image result 9.4 percent of exporters interviewed by East in January said they expected their volumes to contract in the next three months, while 8.6 percent of importers were forecasting an increase.

This mirror effect also extended to pricing, with 4.9 percent of exporters anticipating they would have to reduce their pricing in the next quarter, while importers expect theirs to increase by 4.2 percent. This effect is particularly evident in the consumer, retail and health sector, while – unsurprisingly perhaps – metals and mining is the least impacted.

Much is said about Australia's two-speed economy, and while that has come to refer to enterprises which are either part of the resources boom or are not, it could also apply to which side of the strong AUD enterprises find themselves on.

The high AUD is clearly having more than a temporary impact on Australian businesses. It is driving a re-alignment and restructuring which could drive more long term change.

East's next round of the Trade Finance report is scheduled for August, when it will be interesting to see if the percentage of enterprises with an import only profile has continued to increase even further.

Import / Export Trade Profile – Institutional Market

	% of Institutions	
	Aug 2012	**Feb 2013**
Importing only	29.8	32.1
Exporting only	18.5	18.0
Both Importing and Exporting	51.8	49.9